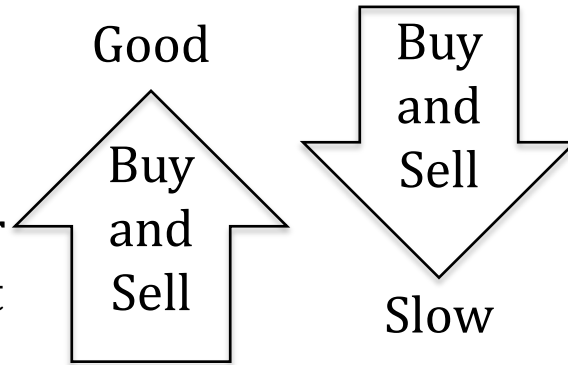


**THE ROLE OF
GOVERNMENT IN THE
ECONOMY**

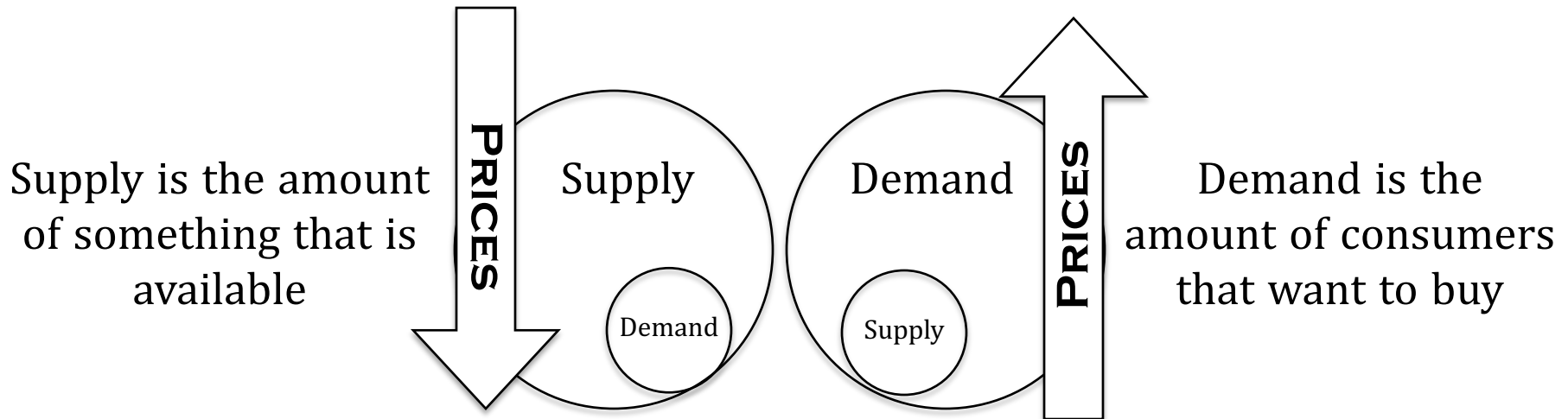
The basis of **economic** activity is how goods and services are produced and consumed.

Virtually all Americans contribute to economic activity because we either produce in the economy or consume the products that are offered.



The overall health of the economy is dependent on how much is being produced and consumed in our country.

The price of goods are largely driven by the laws of supply and demand.



The budget revolves around debated government **priorities.**

ECONOMIC

- How should the government ensure that individuals and people thrive?
- Should money be given to certain industries?
- Should money be spent on projects that create jobs?

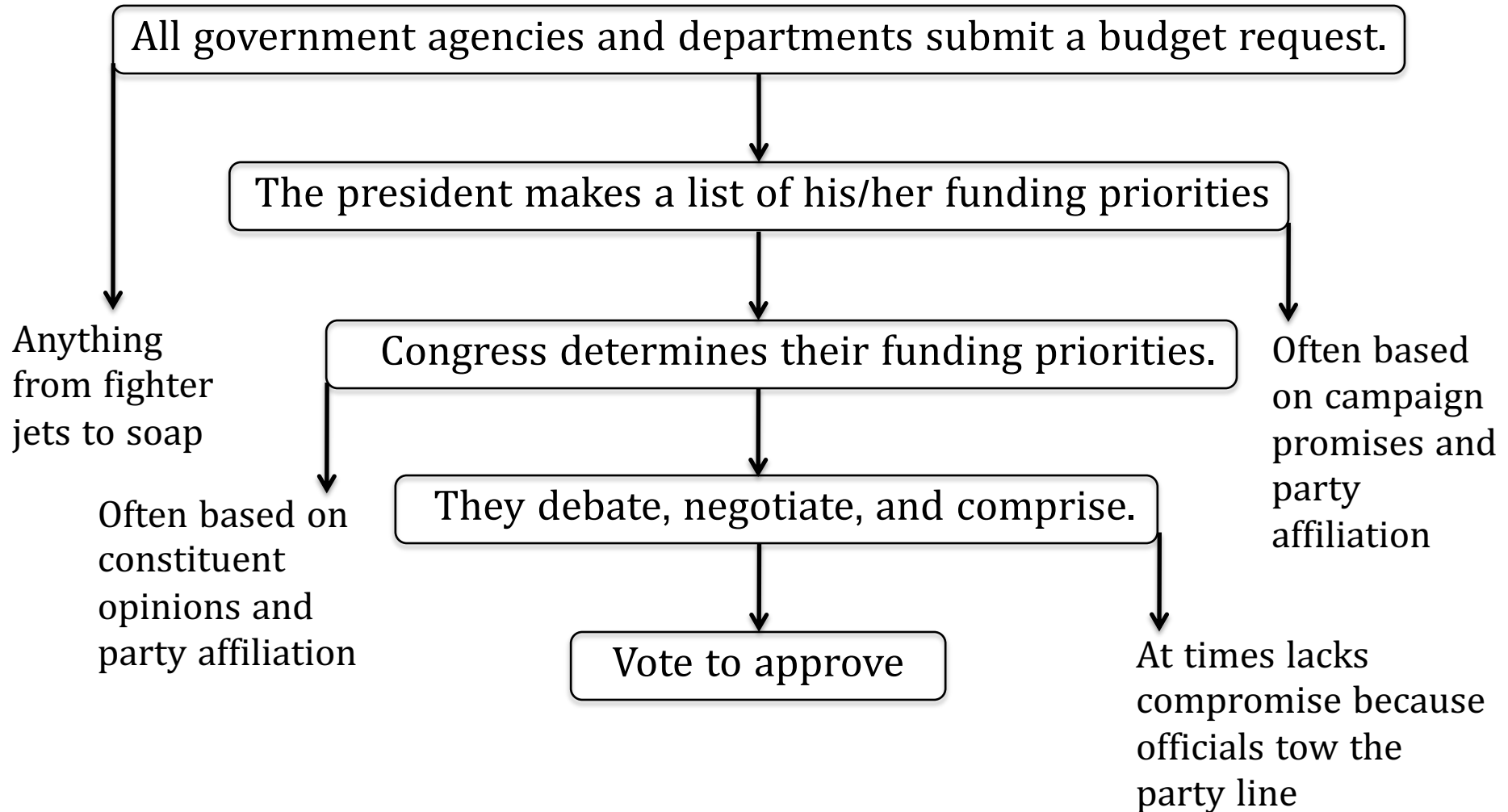
SAFETY

- What should the government do beyond defending the country against attacks?
- What kind of regulations should be placed on industries?
- Should money be spent on research and development?

CITIZEN PROSPERITY

- What problems should the government help citizens with?
- How does the government address the needs of citizens with disabilities?
- How much should the government act as a safety net?

The process of establishing a **budget** takes many aspects into consideration before it goes to a vote.



Although it is ideal for our government to operate with a surplus, there are times in which a **deficit** is formed.

Mandatory Spending

Spending that is required by law such as social security, Medicare, and assistance to certain populations of people

2 TYPES OF SPENDING

Discretionary Spending

Spending that Congress decides on each year such as energy needs, national parks, and national defense

Taxes from individuals and businesses do not always cover the costs of all the government's budgeted expenses and results in **deficit spending**.



Government sells treasury bonds to people and businesses throughout the world (including foreign governments), which act as loans that compile interest.

Government can utilize certain **policies** to control the economy.

Monetary Policies

- Sets interest rates.
- Regulates banks to determine the amount of money that banks have to lend to consumers.

Fiscal Policies

- Tax rates determine how much money the government and consumers have on hand to spend.
- Government spending can create jobs and affect the health of the economy.

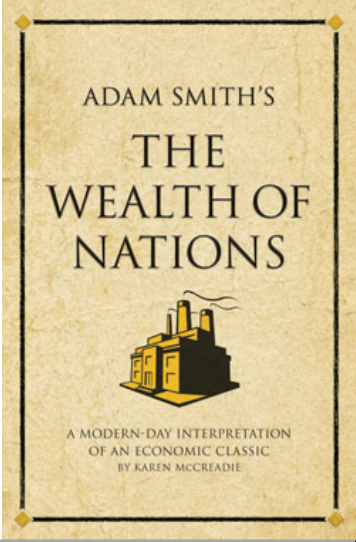
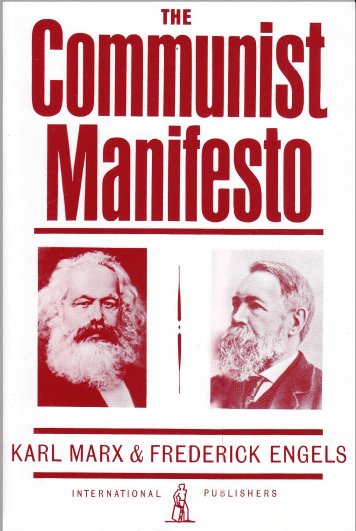
Industry Regulations

- Creates labor laws.
- Breaks up monopolies.

Subsidies and Contracting

- Subsidies in the form of money or land granted by the government to keep prices for consumers competitive.
- Government contracts to new industries to help them develop or engage in fair practices.

Economic theories emerged from groups competing for their interests.

	Basic Tenants	Potential Abuses
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">CAPITALISM</p> 	<ul style="list-style-type: none"> ➤ Free enterprise allows the pursuit of economic activity ➤ Laissez-faire economic limits government interference. ➤ Private ownership of the means of production ➤ Good of the individual is above society 	<ul style="list-style-type: none"> ➤ There is less equality and leads to huge gaps in wealth distribution ➤ Private owners can manipulate the means of production ➤ Lack of government involvement can lead to corporate abuses
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">COMMUNISM</p> 	<ul style="list-style-type: none"> ➤ Supposed to eliminate class struggle through redistribution of wealth ➤ Public (government) ownership of the means of production ➤ Government is entrenched in the economy ➤ Good of society is put above the individual 	<ul style="list-style-type: none"> ➤ Public ownership of the means of production limits choice ➤ Economy struggles to grow due to other government priorities ➤ Government has immense power over people do to their reliance on the system

Socialism is the middle ground between capitalism and communism.

Socialism was a reaction to the social consequences of the Industrial Revolution and subsequent economic liberalism.

Progressive tax rate that increases as the taxable income increases

Mixed economy of public and private ownership

BASIC TENANTS OF DEMOCRATIC SOCIALISM

Revenue streams pay for more services such as education and health care

Government regulation and involvement under certain circumstances